

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Person to Contact

Telephone Number

Refer Reply to

Date

JUL 17 1986

Employer Identification Number:

Tax District:

Dear Applicant:

We have considered your application for recognition of exemption from federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code. For the reasons stated below, we conclude that you do not qualify for tax exemption under this section. Your protest rights are also explained below.

You were incorporated on [REDACTED], pursuant to the [REDACTED] Nonprofit Corporation Act. Article Three of your incorporating instrument provides that you are organized and operated exclusively for charitable, religious, educational, scientific, and literary purposes within the meaning of section 501(c)(3) of the Code, specifically to include contributions to organizations described in section 501(c)(3) and "for the development of relations between countries to lead to world trade, namely, to promote exchanges, symposiums, lectures in exchanging knowledge of world trade among the citizens of the State of [REDACTED] and others to provide opportunities for persons and businesses to participate in this field by sponsoring, organizing and managing certain trade fairs, conferences, tours, seminars, newsletters, exhibitions, and distributing information to the general public... ."

In response to Part III, 3 of Form 1023, exemption application, you state that your activities are designed to promote international trade and international cooperation. These activities include educational seminars, conferences, trade events, and sessions devoted to planning agendas to promote international trade and cooperation for government agencies, nonprofit associations and foundations, economic councils, port districts, cities, states, and other governmental entities. Examples cited include the U.S. Small Business Administration, U.S. Department of Commerce, the Overseas Private Investment Corporation, and the States of [REDACTED] [REDACTED] [REDACTED].

You maintain that your services are "primarily informational and educational." Your activities have the purpose of "broadening community understanding of the importance of international trade in both economic, cultural and educational senses."

[REDACTED]

You appear to be the principal organizer of the [REDACTED] [REDACTED] ("Expo"), held [REDACTED]. The Chairman of the Board Of Directors of Expo was [REDACTED], who was also one of your [REDACTED] incorporators and served as your registered agent at the time of incorporation. Your [REDACTED] other incorporators are listed right below [REDACTED] on the Board of Directors of Expo. Some of the topics for presentation and discussion included the [REDACTED] [REDACTED] as a trading region, the region's competitive position with respect to agriculture, forest products, aerospace, high technology, and fisheries, international finance, U.S. trade policies, and market access and international trade agreements. The governors of [REDACTED] states in the [REDACTED] [REDACTED] served as State Chairmen. There were also [REDACTED] Businessmen Chairmen. "Hosting Organizations" numbered [REDACTED] and included the [REDACTED]

[REDACTED]. Corporate Sponsors numbered [REDACTED] and included [REDACTED], and [REDACTED] banks. The schedule of events for Expo shows that on Wednesday and Thursday mornings, [REDACTED] and [REDACTED] the Expo was open for "Exhibitors/Buyers only".

Under Part III, 1 of Form 1023, you list your sources of financial support, in order of magnitude, as follows: contributions; conference receipts; seminar receipts; other educational endeavors from public and private sources; grants, scholarships, endowment requests; book sales and other promotional activities for world trade and cooperation.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated "exclusively" for religious, charitable, educational, or other specified exempt purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Income Tax Regulations provides that in order to qualify for exemption under Code section 501(c)(3), an organization must be both organized and operated exclusively for one or more exempt purposes. Failure to meet either the organizational or operational test will disqualify an organization from exemption under section 501(c)(3). Furthermore, an applicant organization has the burden of proving that it clearly meets all the requirements of the particular Code section under which it has applied. See Kenner v. Commissioner (63-2 U.S.T.C. para. 9519) 318 F. 2d 632 (7th Cir. 1963) and Cleveland Chiropractic College v. Commissioner (63-1 U.S.T.C. para. 9200) 312 F. 2d 203, 206 (8th Cir., 1963).

Section 1.501(c)(3)-1(c)(1) of the regulations provides that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish such purposes. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. Thus, in construing the meaning of the phrase "exclusively for educational

purposes" in Better Business Bureau v. United States, 326 U.S. 279 (1945), 1945 C.B. 375, the Supreme Court of the United States stated "This plainly means that the presence of a single noneducational purpose, if substantial in nature, will destroy the exemption regardless of the number or importance of truly educational purposes."

Rev. Rul. 76-366, 1976-2 C.B. 144 describes an organization which is an association of investment clubs formed for the mutual exchange of investment information among its members and prospective investors to enable them to make sound investments. Its activities include the preparation and distribution of teaching aids for the use of its member clubs; the conduct of workshops and seminars and the sponsorship of lectures on various investment subjects; the publication of a monthly newsletter for individual investors; the establishment and enforcement of standards for the operation of investment clubs; and the furnishing of technical advice to member clubs relative to their organizational, bookkeeping, and operational problems.

The revenue ruling cites section 1.501(c)(3)-1(d)(1)(ii) of the regulations (promotion of private interest) and the case of Better Business Bureau (cited supra). Rev. Rul. 76-366 then provides the following rationale for holding that the organization described does not qualify for tax exemption under section 501(c)(3):

"While some of the association's activities are educational, and of the kind that might be carried on by an organization described in section 501(c)(3) of the Code, many of the activities listed above are directed in whole or in part to the support and promotion of the economic interests of the investment clubs that comprise its membership. These activities are not in furtherance of charitable and educational purposes. Further, by furnishing information to prospective investors to enable them to make sound investments, the association is serving private interests. Thus, the organization's purposes, not only as declared but also as evidenced by its activities, are not exclusively educational."

Section 501(c)(6) of the Code provides for the exemption from federal income tax of business leagues, chambers of commerce, real estate boards, or professional football leagues not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(6)-1 of the regulations states that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. Its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

Rev. Rul. 70-81, 1970-1 C.B. 131 describes a chamber of commerce which has established its tax exempt status under section 501(c)(6) of the Code. As part of its activities, the organization attempts to attract new industry

[REDACTED]

to the community. This has been a problem because of a lack of suitable facilities and services. In order to provide suitable facilities, the chamber has undertaken the development of an industrial park. It purchased a large tract of land and arranged for the installation of utilities, railroad spurs, and access roads. Appropriate sites are offered to businesses at low prices, sometimes even below cost.

Rev. Rul. 70-81 concludes that the above activity does not jeopardize the organization's tax exemption under section 501(c)(6) of the Code because it is in furtherance of the chamber's purpose of improving the general business conditions of the community. The activity is designed to attract industry to the particular community and is not an activity of a kind ordinarily carried on for profit.

Rev. Rul. 76-207, 1976-1 C.B. 158 provides that a nonprofit organization formed by a city's civic leaders, public officials, and businessmen to encourage conventions of national organizations in the city by making arrangements for facilities, services, and administrative support necessary to run a convention, qualifies for exemption under section 501(c)(6) of the Code. The ruling states that the attraction of business to a community is an appropriate activity for a section 501(c)(6) organization and cites Rev. Rul. 70-81 (supra).

With respect to the facts presented in your own application, we conclude that the holdings in Rev. Ruls. 70-81 and 76-207, discussed above, are fully applicable. Your program to promote the development of the manufacturing, service, agricultural, forestry, and other industries of the [REDACTED] region, and to stimulate the export market for the region's products, is clearly the type of activity undertaken by a chamber of commerce or similar organization which may qualify for exemption under section 501(c)(6) of the Code. The educational aspects of your conferences, seminars, exhibits and other promotional activities are merely incidental to the furtherance of purposes which come within the intent of section 501(c)(6). Under section 1.501(c)(3)-1(c)(1) of the regulations and the decision in Better Business Bureau, both cited above, an organization will not be considered to be "operated exclusively" for exempt purposes if more than an insubstantial part of its activities is not in furtherance of an exempt purpose. We also conclude that your activities to promote the commercial development of industries in [REDACTED] serve essentially private, as opposed to public, interests within the meaning of Code section 501(c)(3). These activities are not in furtherance of charitable or educational purposes. See section 1.501(c)(3)-1(d)(1)(ii) and Rev. Rul. 76-366, both cited above. Accordingly, you do not meet the operational test under section 1.501(c)(3)-1(c)(1). Section 1.501(c)(3)-1(a)(1) provides that an organization will not qualify for exemption under Code section 501(c)(3) if it fails to meet either the organizational test or the operational test.

Based on the foregoing, we hold that you are not exempt from federal income tax under section 501(c)(3) of the Code. Therefore, contributions

[REDACTED]

to you are not deductible under section 170 of the Code. You are required to file federal income tax returns on Form 1120.

You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days from today, in duplicate, and must be signed by one of your principal officers. When sending a protest or other correspondence with respect to this case, you will expedite its receipt by placing the following symbols on the envelope: [REDACTED]-RJC, Room [REDACTED]. These symbols do not refer to your case but rather to its location.

You also have a right to a conference in this office after your statement is submitted. If you desire a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your principal officers, he must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides, in part, that, "A declaratory judgment or decree under this section shall not be issued in any proceedings unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the District Director, Seattle, Washington, which is your key district for exempt organization matters. Thereafter, any questions about your federal income tax status should be addressed to your key District Director. The appropriate State officials will be notified of this action in accordance with section 6104(c) of the Code.

Sincerely yours,

(signed) [REDACTED]

[REDACTED]  
Chief, Exempt Organizations  
Rulings Branch

cc: DD, [REDACTED]  
cc: [REDACTED] State Officials  
cc: [REDACTED] P, [REDACTED]  
Attn: Branch Research Facility